

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AGRE-00 COME-00 EB-08 LAB-04 STR-04
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R 181242Z AUG 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 8457
INFO AMCONSUL ALEXANDRIA
AMEMBASSY AMMAN
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY PRAGUE
AMEMBASSY TEL AVIV

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E.O. 11652: NA
TAGS: ETRD, EG CZ UR EAGR
SUBJ: EGYPTIAN EMBARGO OF COTTON TO USSR AND CZECHOSLOVAKIA

REF: CAIRO 13655 (NOTAL)

SUMMARY. THRUST OF REPORTING ON EGYPTIAN DECISION EMBARGO
COTTON AUGUST 18 WAS THAT GOE MOVING FIRMLY SECURE FUTURE
MARKET FOR COTTON, HARD CURRENCY PICTURE WILL BE IMPROVED,
EGYPTIAN ECONOMY LIBERATED, AND (SMUGLY) THAT TEXTILE
CRISIS IMINENT IN SOVIET UNION. END SUMMARY.

1. AHAM PAGE ONE STORY AUGUST 18 FOCUSES ON MINTRADE
TAWFIK EXAMINATION OF COTTON MARKET. ACCORDING GUMHURIYYA,
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THERE IS AGREEMENT THAT COTTON WILL BE DELIVERED
AT INTERNATIONAL MARKET PRICE TO JOINT VENTURE COMPANIES
IN EGYPTIAN FREE ZONES. (NO OTHER DETAILS.) TAWFIK
HAS SUBMITTED REPORT TO CABINET REVIEWING SITUATION FROM
ALL ASPECTS AND, AS HEADLINES PROCLAIM, HE CONFIDENT
DECISION WILL INCREASE EGYPTIAN HARD CURRENCY REVENUES.

2. ALL PAPERS PREDICT WITH SATISFACTION CRISIS ABOUT TO HIT SOVIET AND CZECHOSLOVAK TEXTILE PLANTS AS RESULT OF EGYPTIAN DECISION. REPORTS CLAIMED USSR HAD ESTABLISHED PLANTS "AFTER MONOPOLIZING EGYPTIAN COTTON AND GEARED THEIR OPERATION TO EGYPTIAN LONG STAPLE. SOVIET UNION HAD ORGANIZED EGYPTIAN ECONOMY AS PART OF COMMUNIST BLOC." ALSO CLAIMED THAT EGYPTIANS EXPORTING PRODUCTS TO SOVIET UNION HAVE LOST 60 MILLION POUNDS IN PAST THREE YEARS "AS RESULT OF INTENTIONAL MISCALCULATION BY SOVIET UNION IN CALCULATING STERLING EXCHANGE RATE." EXPORTERS HAVE FILED CLAIM AGAINST EGYPTIAN CENTRAL BANK, AS GUARANTOR OF SOVIET TRADE ARRANGEMENTS, TO MAKE GOOD THEIR LOSSES.

3. AKHBAR DESCRIBED EGYPTIAN COTTON DECISION AS "EMANCIPATION OF COTTON AND THE FARMERS." DECISION WILL HAVE DEEP IMPACT IN THAT EGYPTIAN FARMERS WILL BE FREE FROM "BLACKMAIL OF PAST TWENTY YEARS." EGYPTIANS HAD NOT BEEN PAID FAIR PRICES AND, IN FACT, HAVE NOT EVEN BEEN ABLE TO COVER PRODUCTION COSTS. AKHBAR ARGUES THAT SOVIET COTTON "MONOPOLY" WAS "PRICE FOR SOVIET WEAPONRY".

4. SOVIET VIEW. IN CONVERSATION WITH POLCOUNS AUGUST 17, SOVIET COUNSELOR DERKOVSKY CONFIRMED THAT 50 PERCENT OF THIRTY THOUSAND TON EXPORT COMMITMENT FOR 1977 HAD BEEN DELIVERED (REFTEL). HE DESCRIBED DECISION AS "VERY LIMITED OFFICIAL USE

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SERIOUS" IF PRESS ACCOUNTS CORRECT. SOVIETS ATTEMPTING CLARIFY EXACT MEANING OF GOE DECISION. ACCORDING DERKOVSKY, IF GOE INDEED SUSPENDING COTTON EXPORTS BECAUSE OF SOVIET FAILURE DELIVER MILITARY SUPPLIES, SITUATION WOULD BE SERIOUS BECAUSE (A) IT WOULD INDICATE EGYPTIANS NO LONGER INTEND TO MAKE PAYMENTS ON DEBT AND (B) GOE WOULD BE LINKING TRADE RELATIONS DIRECTLY TO ARMS SUPPLY FOR FIRST TIME. DERKOVSKY SAID ARMS SUPPLY DEFINITELY LINKED TO "POLITICAL UNDERSTANDING" (WHICH IS WHY SOVIETS REQUIRED "POLITICAL UNDERSTANDING" (WHICH IS WHY SOVIETS REQUIRE "POLITICAL DOCUMENT" AS CONDITION FOR RESUMING ARMS SUPPLY), BUT IT SHOULD NOT BE LINKED TO TRADE.

5. COMMENT: PRESS TREATMENT CONVEYS IMPRESSION THAT GOE AWARE PUBLIC CONCERNED OVER TAMPERING WITH COTTON SALES, ESSENTIAL ELEMENT OF ECONOMY, ESPECIALLY BY SHUNNING SOVIET MARKET BEFORE OTHER MARKETS IN HAND. ON BALANCE, DECISION NEVERTHELESS POPULAR ONE. EMBOFFS HAVE, ON NUMEROUS OCCASIONS IN PAST, HEARD LAMENTS FROM VARIETY OF EGYPTIANS ON "BONDAGE" OF EGYPTIANS ECONOMY TO SOVIET UNION. WIDELY HELD VIEW IS THAT, IN ADDITION CORNERING COTTON EXPORTS, SOVIETS DELIBERATELY SOUGHT TO FORCE

EGYPT TO PRODUCE SHODDY GOODS WHICH COULD FIND MARKET ONLY IN SOVIET UNION AND TO SADDLE EGYPTIANS WITH OBSOLETE, THIRD-RATE INDUSTRIES AS PART OF THEIR PLAN. MANY EGYPTIANS LOOK TO U.S. TO CORRECT SITUATION BY HELPING ESTABLISH MODERN INDUSTRIAL BASE WHICH WILL ALLOW EGYPT PARTICIPATE EFFECTIVELY IN INTERNATIONAL ECONOMY.

6. TODAY'S REPORTING ALSO INDICATES THAT DERKOVSKY'S FEARS OF LINKAGE OF TRADE TO ARMS RELATIONSHIP ARE IN PROCESS OF COMING TRUE. REMAINS TO BE SEEN HOW SOVIETS HANDLE THIS NEW DEVELOPMENT, BUT, AS DERKOVSKY NOTES, IT IS BASIC CHANGE IN RULES TRADITIONALLY GOVERNING GOE-SOVIET RELATIONS AND CALCULATED BY EGYPTIANS (OR AT LEAST SADAT) TO STING.
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